

# INTEROFFICE MEMO



County of San  
Bernardino

**DATE** May 16, 2002

**PHONE** 387-5410

**FROM** **VALERIE CLAY**  
Deputy Administrative Officer

**TO** **THE HONORABLE BOARD OF SUPERVISORS**

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**SUBJECT** **2002-03 REVISED FINANCING PLAN FOR 2002-03 BUDGET WORKSHOP**

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A 2002-03 Budget Financing Plan was presented to the Board on February 26, 2002. A copy of that agenda item is attached for your reference. That plan provided the basis for distributing locally financed budget targets to general fund departments to develop their 2002-03 budgets. Enclosed in this workbook are the departmental budgets submitted and reviewed by the County Administrative Office. The analysis of each department's budget is presented in the same format as in the prior year. This analysis shows the Board Approved Base Budget, which includes the approved costs mentioned in the February financing plan and any other Board approved agenda items. The analysis also highlights any recommended program funded adjustments that the departments included in their budget within their budget targets. Any program or workload changes that could not be financed within the department's current allocation are presented as policy items in this workbook. Fee ordinance adjustments are not incorporated in the enclosed budgets, but are included for approval.

## **Revised 2002-03 Financing Plan**

Since February 26, 2002 the County has received additional actual data on discretionary revenue as well as departmental activity from February through April. This new information was analyzed and the County Administrative Office is revising the County's 2002-03 financing plan as follows:

	<b>Ongoing</b>	<b>One-time</b>	<b>Total</b>
<b>Financing Available as of 2/26/02 (less Tobacco)</b>	9.8	14.6	24.4
<b>Increased Revenue Sources:</b>			
Increase in Discretionary Revenue	2.3		2.3
Increase in Fund Balance		14.2	14.2
<b>Increased Expenses:</b>			
Board Approved After February	<u>(1.5)</u>	<u>(0.4)</u>	<u>(1.9)</u>
<b>Subtotal Revised Financing Available</b>	10.6	28.4	39.0
CAO Recommended Expenses		<u>(5.7)</u>	<u>(5.7)</u>
<b>General Fund Financing Available</b>	10.6	22.7	33.3
Tobacco Settlement Revenue	<u>.7</u>	<u>3.4</u>	<u>4.1</u>
<b>Total Financing Available as of 5/14/02</b>	11.3	26.1	37.4

## INCREASED REVENUE SOURCES

### Discretionary Revenue (\$2.3 Million Net Increase)

**Property Tax +1.0 million:** Property tax projections have been increased to reflect positive roll corrections in the current year combined with the estimated 6% assessed valuation growth.

**Vehicle License Fees +1.7 million:** Vehicle license fee projections have been increased to reflect higher than expected growth in the last half of 2001-02. The 2002-03 budget continues to reflect a 5% projected growth rate over current year estimated actuals.

**Interest Revenues (3.3) million:** Interest revenue is expected to decline an additional 3.3 million from February projections due to projected decreased interest earnings on the Tax and Revenue Anticipation Notes (TRANS). This is due both to the decreased size of the borrowing and historical lows in short term interest rates. Interest earnings on the pool are also expected to decline due to lower investment rates.

**Sales Tax (0.6) million:** Sales tax is expected to grow over current year estimated actuals, however recovery from current year declines in sales tax has been milder than expected. As a result, sales tax budget for 2002-03 has been decreased \$0.6 million from 2001-02 budget.

**COWCAP +2.2 million:** COWCAP projections have increased in response to receipt of the final billing schedule from the Auditor/Controller's office.

**Property Tax Administration +0.9 million:** Property Tax administration fees have increased to reflect increased costs of extending the roll.

**Other +0.4 million:** Proceeds from unclaimed property tax refunds is increased \$0.2 million to reflect higher than projected receipts in the last two fiscal years and franchise fees is increased \$0.2 million based on actual receipts as of April 2002.

### Fund Balance (\$14.2 Million Increase)

For several different reasons, the County Administrative Office is expecting a significantly higher fund balance at the end of 2001-02. First, as a result of GASB 33, certain county trust funds had to be closed out and recognized as revenue. This resulted in an unexpected revenue increase of \$5.2 million. Second, during the year the Board approved three-year agreements with general and exempt employees, which were estimated to cost \$3.8 million. Now that the year is almost to the end, it appears that the majority of the departments were able to cover this additional cost within their budget due to vacancy savings. Third, \$2.1 million was realized in the current year as a result of debt refinancing that occurred in April 2002. The remaining increase in fund balance is mainly due to higher projections in property tax, vehicle license fees and franchise fees.

### **INCREASED EXPENSES**

After February 26, 2002 the Board of Supervisors approved additional ongoing costs totaling \$1.5 million. These costs include staffing for the District Attorney and Public Defender as a result of new judgeships, funding for an Assistant Public Defender, funding for an additional payroll technician for Short Term Disability and Workers Comp. Payments, and funding for additional costs related to the revised exempt salary agreement.

In addition, in accordance with Board policy, an additional \$0.4 million was needed to fund the mandatory level of contingencies and reserves due to the revised financing plan.

### **CAO RECOMMENDED EXPENSES**

The County Administrative Office is recommending two items to be included in the revised financing plan related to capital improvement projects and a debt reduction plan. Even though the County Administrative Office is recommending these items at this time, these expenditures will not be incurred until the total impact of the State Budget Shortfall are known.

#### **Capital Improvement Program (\$3.6 Million Increase)**

The 2002-03 Budget Financing Plan, approved by the Board on February 26, 2002 included \$3,000,000 in local cost for the Capital Improvement Program (CIP). After the CIP call was issued in October 2002, 279 project requests were received from 19 departments totaling over \$331.4 million. That list has been reduced to \$18,411,251, which includes \$5,132,000 in general fund financed projects, and \$13,279,251 million in projects for which the general fund will be reimbursed.

Included in the \$5,132,000 general fund financing is the \$3,000,000 earmarked in February, a reallocation of \$730,000 available from savings in projects to be completed in 2001-02, \$1,145,000 in sale proceeds from the Gilbert Street property to the San Bernardino Joint Unified School District, and an additional \$257,000 from the general fund which is included in the revised financing plan. The savings in completed projects and the sales proceeds is additional discretionary revenue that could be spent elsewhere if the Board desires.

The workbook also contains a list of projects to be considered for potential one time funding totaling \$3,330,000. This amount is included in the revised financing plan. Projects on this list include continued work to upgrade the Glen Helen water system, HVAC replacements for ISD and the Redlands Court building, replacement of the pool filtration system at Cucamonga Guasti Regional Park, and additional parking lot pavement improvements.

#### **Refinancing Savings Used to Reduce Debt (\$2.1 Million)**

Refinancing of the 1992 Justice Center/Airport Improvement project generated \$2.1 million in general fund savings in 2001-02. This amount is included in the revised fund balance mentioned above. The County Administrative Office is recommending using this \$2.1 million towards paying down debt. In addition, the 2001 West Valley Detention Center refinancing will produce \$1,055,777 in general fund savings in 2002-03 and is not needed in the Joint Powers Lease budget. This makes a total of \$3.2 million available due to debt refinancings. It is recommended that this \$3.2 million be used to pay down the Glen Helen taxable debt. A principal reduction of \$3.2 million would reduce the required appropriation in the Joint Powers Lease budget an average of \$260,000 per year over the next 22 years. This ongoing appropriation of \$260,000 would then be available for allocation to other programs. The County's Debt Advisory Committee concurred with the CAO recommendation at their meeting on May 8, 2002.

### **TOBACCO SETTLEMENT REVENUE**

Although the Tobacco Settlement proceeds are collected in a special revenue fund, the Board of Supervisors has discretion on where this money is spent. Due to 2001-02 activity this fund has one-time money totaling \$3.4 million. This money was from higher than anticipated revenue in the current year, resolution of a dispute with a tobacco company resulting in release of money previously withheld and one-time reimbursements from non-participating counties for attorney costs. The County Administrative Office has also revised the ongoing increase in this revenue by \$0.3 million, bringing the total ongoing increase to \$0.7 million, due to interest earnings and actual receipts in the current year.

In conclusion, the total tobacco settlement money available in 2002-03 is \$24.2 million, of which \$17.7 million is to be applied towards the ARMC Debt Service and \$0.4 million still to be spent on the 2000-01 allocation for tobacco cessation contracts. The remaining \$6.1 million is still available for allocation by the Board of Supervisors (\$4.1 million as detailed on page one and \$2.0 million included in the base budget). Although not designated as such, the \$2.0 million could also be part of available financing by the County.

### **POTENTIAL UNFUNDED ISSUES**

If the Board concurs with the CAO recommendations, the financing still available for appropriation is \$37.4 million (\$11.3 ongoing and \$26.1 one-time). Although a number of departmental policy items are included in this budget submittal, the County Administrative Office is recommending to not fund these requests at this time until the upcoming State Budget is finalized and the County impact is known. The County Administrative Office is also recommending to budget these available amounts in contingencies to address the following major issues that may face the County in the near future:

1. State Budget Changes
2. Salary Negotiations
3. West Valley Juvenile Expansion – Staffing and Utilities
4. Pending Litigation
5. Retirement Issues
6. Employee Health Care Costs
7. Property Insurance Increases
8. Building and Construction Costs related to County Space Master Plan
9. HIPAA Consultant/Implementation
10. Health Care Administration Building
11. County Matches for Grants
12. Upgrade County Financial Accounting System to Web Based Format

**GASB 33 & 34 IMPACT TO BUDGET**

There are two Government Accounting Standards Board (GASB) Statements that impacted the 2002-03 County Budget. GASB 33 established accounting and financial reporting standards for nonexchange transactions involving financial or capital resources. A nonexchange transaction is where a government gives or receives value without directly receiving or giving value in return. Some examples of nonexchange transactions are taxes, grants, fines, donations, and state and federal funding. The main impact of GASB 33 is that revenue must be recognized for the above transactions when the underlying exchange has occurred or when eligibility requirements are met. If cash is received before the eligibility requirements are satisfied, the county records the transaction as an advance. Therefore, money that is received under this criteria and was previously set aside in trust funds must now be recognized when received and trust funds that are not fiduciary in nature must be eliminated. As a result, money previously in trust funds must be recognized as revenue in 2001-02, new special revenue funds must be added in the 2002-03 budget, more operating transfers must be budgeted and two new reserves must be set up as described below.

Government Accounting Standards Board (GASB) Statement 34 established new requirements for the annual financial reports of state and local governments. There are many components of GASB 34, but, as it relates to the budget, it is primarily composed of how services provided between county budget units are accounted for. GASB 34 specifies how payments for services should be accounted for, i.e. either as reimbursements or as revenues. While the net impact is zero, reclassifications between these two categories cause inconsistencies when comparing year to year budgets by specific expense or revenue categories. In situations where this impact is significant, the departments have included an explanation of the reclassification.

**TEETER RESERVE**

In 1993-94, the County adopted the "Teeter Plan" method of secured property tax distribution. The Teeter Plan provides for distribution of property taxes to participating entities based on the total tax levy. When collections are inadequate to cover the amount of taxes owed, the County makes up the difference. In return the County receives all future delinquent tax payments, penalties and interest. The penalties and interest are deposited into a Tax Loss Reserve Fund.

Pursuant to GASB 33, the Tax Loss Reserve Fund must be closed out to the general fund. However, the Revenue and Taxation Code requires the County to set aside a portion of this money equal to at least 1% of the current property tax roll. This set aside is to cover any losses that may be incurred when property is sold at a tax sale. To meet this requirement a new general fund reserve must be established. The County Administrative Office is recommending a set aside of 3% of the current property tax roll, instead of the required 1%, for a total of \$18.9 million. This conservative set aside is based on insufficient experience on which to base an estimate, and tax sales have not been held in sufficient quantity to make a sound estimate.

**RESTITUTION RESERVE**

The Restitution Trust Fund was set up to account for monies received as part of the ongoing corruption lawsuit. Pursuant to GASB 33, the Restitution Revenue trust fund must be closed out and a general fund reserve has been set up in its place. The county has received to date \$7.6 million from the ongoing corruption lawsuit and has earned \$0.6 million in interest on this money. On January 29, 2002, the Board approved the use of this money to pay for attorney costs the county is incurring related to the corruption lawsuit. Attorney costs to date and estimated uses for the remainder of 2001-02 and 2002-03 of approximately \$3.0 million has been or will be reimbursed with this money leaving a balance of \$5.2 million which is now set up as a reserve.

**REPORT/RECOMMENDATION TO THE BOARD OF SUPERVISORS  
OF SAN BERNARDINO COUNTY, CALIFORNIA  
AND RECORD OF ACTION**

2002-03 Budget

February 26, 2002

**FROM: VALERIE CLAY**  
Deputy Administrative Officer

**SUBJECT: 2002-03 BUDGET FINANCING PLAN**

**RECOMMENDATION:**

1. Review the financing and program issues identified in this report, including the spending and income projections used to develop the 2002-03 proposed budget financing plan, and the County Administrative Officer recommendations for funding allocations.
2. Provide direction as to any policy or program funding needs, which should be incorporated into the budget plan at this time.
3. Direct the County Administrative Officer to distribute departmental budget targets based on the data and conclusions in this report, as modified by further Board action and work with departments in developing the 2002-03 proposed budget.

**BACKGROUND INFORMATION:** As in the prior year the 2002-03 budget process begins in late February in order to allow time for budget workshops to be held in late May in advance of the budget hearings to be held in June.

This report is the initial step towards development of the 2002-03 final budget. This report will be used as the basis for the development of budget targets to be issued to county departments and to define base line adjustments to be included in those targets. This report will also identify some of the policy and program issues that the Board may wish to consider at this time, or in the budget workshops to be held in May.

The May workshops will provide an opportunity to revisit an updated financing plan and to provide a review of individual department budget proposals. Through this process the County Administrative Officer may receive additional Board direction on countywide policy or program issues towards development of the 2002-03 budget.

As in prior years the budget hearings will be held in June in anticipation of the final budget to be adopted on June 25, 2002. Components of the financing plan included in this report are:

- Analysis of current year budget status and an estimate of year-end fund balance.
- Analysis of state and federal budget possible impacts to the county.
- Analysis of the FY 2002-03 financing plan: 1) Increased Financing Available, 2) Base Line Budget Cost Adjustments, and 3) 2% Local Cost Reduction
- Review of county policies as to use of one-time funds and general-purpose revenues.
- Conclusion

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cc: CAO-Clay  
Auditor  
File

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Record of Action of the Board of Supervisors

**APPROVED BOARD OF SUPERVISORS  
COUNTY OF SAN BERNARDINO**

MOTION	MOVE	SECOND	AYE	AYE	AYE
	1	2	3	4	5

J. RENEE BASTIAN, CLERK OF THE BOARD

BY

DATED: February 26, 2002

ITEM 114

### CURRENT YEAR BUDGET STATUS

Analysis of the current year's budget status shows an overall healthy estimate of year-end fund balance. Although there is a significant Proposition 172 revenue shortfall for the Sheriff, District Attorney and Probation budgets and there is additional costs to be incurred related to the recently approved salary negotiations, most departmental expenditures and revenues are generally on track.

Overall increases in discretionary revenue include both revenue sources unanticipated in the adopted budget and strong performance in Property Tax, Vehicle License Fees and interest earnings. Also included are funds available in the county general fund contingency account.

All these factors would lead to an estimated fund balance of \$25.7 million.

<b>YEAR-END FUND BALANCE ESTIMATE</b>	
Mitigated Proposition 172 Revenue Shortfall	(5.3)
Recently Approved Salary Negotiations	(3.8)
All other Departmental Operations	<u>3.4</u>
<b>Total Departmental Operations</b>	<b>(5.7)</b>
Current Balance in Contingencies	19.4
Estimated Use in the Remainder of the Year	<u>(2.0)</u>
Balance Remaining in Contingencies	<b>17.4</b>
Property Tax Revenue	3.5
Vehicle License Fees	4.5
Interest Earnings	2.8
Sales Tax	(1.0)
Federal Marshal Revenue	(3.3)
Other Revenue	<u>4.2</u>
<b>Total Non Departmental Revenue</b>	<b>10.7</b>
Cancel Contribution to Justice Facilities Reserve	3.3
<b>Estimated Year-End Fund Balance</b>	<b><u>25.7</u></b>

The components of estimated fund balance are discussed below:

#### **Proposition 172 Revenue Shortfall - \$5.3 million in additional costs**

Prop 172 revenues are the one-half percent sales tax received from the state for public safety activities. In accordance with Board direction this revenue is split between the Sheriff (70%), District Attorney (17.5%) and Probation (12.5%). Recent projections point to a potential shortfall of up to \$8.8 million in Proposition 172 revenues in 2001-02 due to the current economic downturn. The County Administrative Office has requested the respective departments to curtail expenses in this year by a total of \$3.5 million to mitigate this revenue shortfall this year. This estimate is based on curtailing these expenses.

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**Salary Negotiations - \$3.8 million in additional costs**

The county will incur \$3.8 million in additional general fund cost this year due to the recently approved three-year agreements for general and exempt employees. Other additional current ongoing contract negotiations are not included in this estimate.

**All Other Departmental Operations - \$3.4 million savings**

Overall the remaining general fund departments are generally on track. Savings in the Auditor, Treasurer and the joint powers lease budgets contribute to an estimated \$2.8 million in savings.

**Remaining Balance in Contingencies - \$17.4 million**

The current balance in contingencies is \$19,368,029. It is estimated that the Board may use another \$2.0 million from contingencies for issues such as pending litigation and salary negotiations.

**Property Tax Revenue - \$3.5 million additional revenue**

It is estimated that property tax revenues will exceed budget by \$3.5 million. This is due to larger than expected secured and unsecured property values. Secured property values that are not in redevelopment project areas have increased 5.7% over the prior year. Secured property values in redevelopment project areas increased 11% over the prior year. These percentage increases demonstrate that San Bernardino County residential real estate has been appreciating and residential and industrial building activity has been strong.

**Vehicle License Fees - \$4.5 million additional revenue**

Prior to September, this revenue source continued to display the strong growth experienced over the last several years. However, vehicle license fee revenues declined sharply in the month of September followed by a significant increase in sales in October due to financial incentives offered by auto manufacturers. November and December sales also show growth from the prior year, however, January sales were flat from the prior year. Therefore, this estimate assumes no growth for the remainder of the fiscal year. As an aside, this is the revenue source that the state currently backfills at 67.5%.

**Interest Earnings - \$2.8 million additional revenue**

Yields earned by the county investment pool continue to be higher than yields currently available in other governmental portfolios, which has helped to protect the county's interest revenues from the short-term interest rate reductions that have been experienced in the market. In addition, interest is expected to exceed budget by \$2.8 million primarily due to higher than expected interest earnings associated with the 15-Month Tax and Revenue Anticipation Notes.

**Sales Tax - (\$1.0) million**

Sales tax revenue received is for the unincorporated area of the county only. This revenue is expected to come in below budget by \$1.0 million due to the current economic downturn. This shortfall is 7% of the sales tax revenue budget.



**Federal Marshal – (\$3.3) million**

Preliminary estimates indicate this revenue source may under-perform by \$3.3 million due to decreased federal inmate population. CAO staff will continue to work with the Sheriff to monitor inmate population trends in our local facilities. This was the funding to be used to make a contribution to the Justice Facilities Reserve.

**Other Revenue – \$4.2 million unanticipated and additional revenue**

Other revenues reflect the close out of a \$1.2 million property tax litigation trust fund that is no longer necessary. Payment In Lieu of Taxes revenue received is \$0.4 million more than budgeted this fiscal year. Other revenue includes \$1.1 million from the restitution revenue trust fund to cover prior year expenses. Other revenue also includes other taxes such as aircraft tax, property transfer tax, hotel/motel tax, franchise fees and property tax administration and supplemental fees and COWCAP, which in total are expected to exceed budget by over \$1.5 million.

**Justice Facilities Reserve – \$3.3 million**

Since the Federal Marshal Revenue did not materialize as budgeted, there will be no contribution to the Justice Facilities Reserve in the current year.

**STATE AND FEDERAL BUDGET OUTLOOK**

Recognizing that the state and federal budget process is still in its early stages, San Bernardino County's draft financing plan for 2002-03 currently assumes no state or federal budget impacts. This year the county must pay close attention to the state budget due to its projected shortfall of \$12.5 billion. There are areas in the current proposed budgets that may impact the county and there are areas that the county may have exposure to if the current budgets were modified. Discussed below are these areas:

Key state budget issues of interest to counties include:

- **Disproportionate Share Hospital (DSH) Administration Fee:** The actual impact of the proposed increase of \$55 million in the state's administrative fee for Disproportionate Share Hospitals is unknown at this time. This fee would come off the top before DSH is distributed to the hospitals. The potential impact of the DSH administrative fee could be an approximately \$2.2 million decrease in Arrowhead Regional Medical Center (ARMC) revenue. This is based on the county's approximately 4% share of the \$55 million cut.
- **Child Health and Disability Prevention (CHDP):** The proposal to dismantle the Child Health and Disability Prevention program would immediately eliminate the \$336,000 CHDP allocation to the Department of Public Health, which supports 5.1 positions of clerical and nursing staff. It would also result in an accelerated decrease in revenues from Child Health clinics, of which \$250,000 has come from CHDP fees for well child health screenings. These funds support approximately 7.5 positions of clinical and clerical staff. The reduced CHDP revenue for clinic work would perhaps be partially offset for a limited period by increased Medi-Cal revenue.



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- **In-Home Supportive Services:** The proposed budget could require additional local funds for provider payments. The state's provider payment rate for San Bernardino County is stated as \$6.75/hr and the county is currently paying more. If the county continues paying the higher rate, the state may not participate in the difference, which could require more local cost than projected, unless hours per case or cases are reduced, which may not be feasible.
- **County Library:** The Governor proposes reducing the Public Library Fund again by \$11.2 million. This would reduce the county's total state aid to approximately \$1,463,776, compared to the budgeted \$2,031,000 -- a shortfall of \$567,000.
- **Vehicle License Fee Backfill:** Although the elimination of the 67.5% backfill of vehicle license fees was not mentioned in the 2002-03 Governor's Budget, there is still the risk that the final budget adoption may include some provision that will impact the county's vehicle license fee revenues. The county receives more than \$100 million in vehicle license fees; therefore, there is a potential of a \$67.5 million shortfall if the state does not backfill this revenue.

Key federal budget issues of interest to counties include:

- **Medicaid Upper Payment Limit:** The federal Health and Human Services Department reduced the upper payment limit (UPL) for public hospitals from 150 percent to 100 percent. This is a significant impact to public and other hospitals in California that provide Medi-Cal. These cuts will be offset by Disproportionate Share Hospital payments for the first two years of implementation and there will be a 5 to 8 transition period to lower the UPL. Arrowhead Regional Medical Center estimates that it will lose \$10 million when the phase out is completed.
- **SCAAP:** The President proposes to eliminate funding for the State Criminal Alien Assistance Program (SCAAP). California received over 40 percent of last year's \$565 million SCAAP authorization. The President last year proposed to reduce SCAAP by more than half, but Congress prevailed at maintaining the appropriation at the previous year's level. Hopefully, the Congress will prevail again since the Sheriff Department currently receives \$700,000 to \$1,000,000 annually from this program.

Administrative Office staff will continue to monitor the state and federal budgetary process. Legislative reactions to the Governor's initial proposal, and revisions released in May, will provide further insight regarding the local impacts of evolving budget policy.

FY 2002-03 FINANCING PLAN

**INCREASED FINANCING AVAILABLE TO FUND THE 2002-03 BUDGET**

Projections for new financing available for next year's budget include \$32.3 million in ongoing funding sources and includes \$25.7 million in fund balance as a one-time source as summarized on the chart below:

<b>FINANCING AVAILABLE FOR 2002-03</b>			
	<b>Ongoing</b>	<b>One-time</b>	<b>Total</b>
Beginning Financial Position	11.3		11.3
New Discretionary Revenue	18.0		18.0
New Restricted Revenue	3.0		3.0
Estimated Fund Balance Available		25.7	25.7
<b>Total New Financing Available</b>	<b>32.3</b>	<b>25.7</b>	<b>58.0</b>

**Beginning Financial Position - \$11.3 million**

The 2001-02 budget included \$30.5 million in one-time funding sources. The budget also included \$41.8 million in one-time costs. The difference of \$11.3 million represents one-time costs that were financed through ongoing financing sources. This ongoing financing is available for reallocation in the 2002-03 budget and is defined for the purposes of this report as the beginning financial position. A listing of these specific sources and costs are provided below.

<b>2002-03 BEGINNING FINANCIAL POSITION</b>	
	<b>General Fund Millions</b>
<b>Eliminate One-Time Financing Sources</b>	
2001-02 Fund Balance	(30.5)
<b>Total One Time Sources</b>	<b>(30.5)</b>
<b>Eliminate One-Time Costs</b>	
Contingencies	29.2
Prior Year Policy Item	0.1
High Priority Policy Needs Rollover	1.1
Contribution to General Reserve	2.8
Contribution to CIP	8.6
<b>Total One Time Costs</b>	<b>41.8</b>
<b>2002-03 Beginning Financial Position</b>	<b>11.3</b>

**New Discretionary Revenue - \$18.0 million**

New discretionary revenue is outlined in the chart below. The growth from prior year's budget in discretionary countywide revenues is estimated to be \$18.0 million and is based on the following.

<b>NEW DISCRETIONARY REVENUE</b>	
Property tax AV growth	8.4
Motor Vehicle License Fee	9.9
Interest	(3.6)
Other	3.3
<b>Total New Ongoing Discretionary Financing</b>	<b>18.0</b>



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- Property tax revenue is expected to increase by \$8.4 million based on an assessed valuation growth of 4% over current year projected actuals.
- Growth is still expected, although at a slower rate than in previous years, in vehicle license fee revenues. These estimates are based on projected over-performance in the current year combined with forecasts by a local economist.
- Interest is expected to decrease by \$3.6 million for next year. This is due to an IRS ruling which prohibits the issuance of a 15-Month Tax and Revenue Anticipation Notes (TRANS) and the reduction of interest payback received from other entities, as 2001-02 is the last full year of the payoff.
- Other revenue showed increases in franchise fees, property tax administration fees, Payment in Lieu of Taxes revenue, and other taxes.

**New Restricted Revenue - \$3.0 million**

The chart below displays the expected growth in restricted revenues for 2002-03.

<b>NEW RESTRICTED REVENUE</b>	
Realignment Revenue	2.6
MSA Projected Increase	.4
<b>Total Ongoing Restricted Revenue</b>	<b>3.0</b>

- The growth in realignment revenue is restricted to social services and health programs within HSS.
- The Master Settlement Agreement (MSA) revenue growth represents an increase in Tobacco Settlement Funds. The financing plan assumes no change in direction for the use of MSA funds. The estimate for MSA proceeds in 2002-03 is \$20.1 million. This is an increase of \$.4 million from what was budgeted in the current fiscal year. This would provide \$17.7 million to be applied towards ARMC Debt Service and leave \$2.4 million available for allocation by the Board of Supervisors.

**Fund Balance - \$25.7 million**

The components of fund balance were discussed in the Current Year Budget Status section of this report.

**BASE LINE BUDGET COST ADJUSTMENTS**

The prior sections of this report addressed the financing available for 2002-03. This section will address new costs. The chart below summarizes the adjustments to the base line budget that are included in the financing plan for both one-time and ongoing costs. Following the chart is a brief description of each cost component.

<b>BASE LINE BUDGET ADJUSTMENT</b>	
General MOU 3%	11.8
Safety MOU 5%	3.9
Retirement rate adjustments	0.0
Contribution to Unfunded Fire Area	0.5
Contribution to Office of Emergency Services	0.5
Contribution to CSA 38 for MOU	0.1
Rate changes	(0.5 )
Debt service	(4.0 )
Inflation at 2%	1.9
Mid-year Board increases	1.3
Full-year funding	6.3
Mandated	3.6
Internal Investment Savings	(1.0)
<b>Total Ongoing Costs</b>	<b>24.4</b>
Contribution to CIP	3.0
Contribution to Equity Pool Reserve	2.0
Maintain Contingencies per Board policy	4.7
Contribution To Reserves Per Board Policy	1.4
<b>Total One Time Costs</b>	<b>11.1</b>
<b>Total Costs</b>	<b>35.5</b>

#### **General Employees' MOU Adjustments - \$11.8**

The county recently approved a three-year labor agreement with the non-safety employees. A 2.0% increase was in effect in January 2002 and an additional 1.0% in July 2002 along with a significant increase in the flexible benefit plan, at a net local cost of \$11.8 million. This continues the provision of local cost funding of MOU increases for the previously self-supporting functions of Planning, Parks and Museums.

#### **Safety Employees' MOU Adjustments - \$3.9**

The safety employees' MOU is in the third year of a three-year agreement. The contract calls for a 5% increase in July 2002, at a net local cost increase of \$3.9 million. The agreement will expire in the middle of next fiscal year (December 2002) and additional costs may be incurred in 2002-03 as a result of a new agreement.

#### **Retirement Rate Changes - \$0**

Employer retirement contributions are composed of two rates: a rate set actuarially by the Retirement Board and a rate set by the county to cover payment of the pension obligation bond. In 2002-03 the rates from the Retirement Board will fall for both general and safety employees. Offsetting this is an increase in the pension obligation bond rate. As a result, general employee costs will rise \$2.2 million, safety employee costs will decrease \$2.2 million, for a net result of no local cost change. The increased pension obligation bond rate will have the effect of creating an available balance within the bond trust fund that can be used to smooth the impact of future retirement rate increases that will begin to occur in the following fiscal year.

#### **Contribution to Unfunded Fire Area - \$0.5**

In 2001-02, the Board approved general fund support towards funding a full-time fire station at the county's Barstow-Daggett Airport jointly funded by the U. S. Army and additional staffing in CSA 38 stations. The full year cost in the upcoming year for this funding is \$500,000.

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### **Contribution to Office of Emergency Services - \$0.5**

In the 2001-02 budget the county contributed \$400,000 to support the Office of Emergency Services (OES), administered through County Service Area 70/County Fire. This office provides coordination of emergency services countywide in the event of major emergency situations in the county, including earthquakes, fires, flooding, and, most recently, acts of terrorism. In 2001-02, the Board approved full general fund support for this office to ensure the county's emergency services capabilities are appropriately funded. Costs to fully fund OES in 2002-03 require an additional \$467,710.

### **Contribution to Unfunded Fire Area - \$0.1**

In 2000-01, the Board approved general fund support towards funding of CSA 38 MOU increases. The full year cost in the upcoming year for this funding is \$430,832, requiring an increase of \$143,532 in 2002-03.

### **Rate Changes - \$(0.5)**

Included in the 2002-03 financing plan are rate adjustments for computer operations and liability rates.

- There will be a change in the billing methodology in 2002-03 for computer operations to more accurately bill those departments that are benefiting from the current services and infrastructure. This change has created additional costs for some departments/entities and additional savings in other departments/entities, the net savings is \$2.0 million. For those entities that had significant increases, the County Administrative Office is recommending a rollout plan that would not charge these entities the increased costs totaling \$0.9 million related to the change in methodology in the first year of implementation. This would allow these entities sufficient time to adjust their financing and/or county services provided to them. The County Administrative Office is also recommending an audit costing approximately \$0.2 million to be performed on the costs behind these rates to determine if this revised billing methodology is the best way to allocate these costs. After these adjustments the savings due to this change in methodology is \$0.9 million in the first year.
- In 2001-02 liability insurance rates were substantially increased based on a five-year plan to assure adequate funding in all liability accounts. This five-year plan needed to be adjusted in year two based on the effect of the September 11 incident on insurance rates especially in property and aircraft insurance. This adjustment requires a net local cost increase of \$0.4 million.

### **Debt Service - \$(4.0)**

The Equipment Bond issue will be retired in 2001-02. Savings from the elimination of this debt service are partially offset by an arbitrage rebate payment that will be due in 2002-03. In addition, \$1.4 million of general fund financing is no longer required for the Arrowhead Regional Medical Center (ARMC) Debt due to ARMC projected revenue increases.

### **Inflation - \$1.9**

Based on a projected inflation rate of 2%, inflation-related increased costs of goods and services are projected to require an additional \$1.9 million in local funding. This amount includes approximately \$400,000 in the Utilities budget due to the known utility rate increases.

### **Mid-Year Board Increases - \$1.3**

Costs increases in this category reflect the Board's Mid-Year approval of the items detailed in Exhibit 1.

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### **Full-Year Funding - \$6.3**

In the 2001-02 approved budget, \$6.4 million of general fund financing was removed from the District Attorney's budget based on the department's available trust fund revenue to cover expenses in that year. This trust fund is expected to be depleted in 2001-02 and general fund financing is required in 2002-03. This funding is offset slightly by the elimination of a one-time policy item of \$0.1 million.

### **Mandated Programs - \$3.6**

Human Services System has \$3.0 million in mandated programs for Aid to Indigents, Foster Care, Aid to Adoptive Children and California Children's Services. The other increase of \$630,836 is to fund the increase in Unemployment Insurance especially for the Preschool Services Department.

### **Internal Investment Savings - \$(1.0)**

In 2001-02 the Board approved one-time internal projects totaling \$2.7 million that, if enacted, would result in ongoing savings in future years. In 2002-03 the cost savings will be \$1.0 million. These savings were mainly in lighting retrofit projects.

### **Contribution to CIP - \$3.0**

As part of the financing plan, \$3.0 million has been allocated to the Capital Improvement Program. County departments have submitted their CIP requests for the upcoming year. Architecture and Engineering is compiling the list of requested projects along with estimated costs for the Board's consideration during the budget workshops at which time the Board can adjust the level of funding to reflect approved projects.

### **Contribution to Equity Pool Reserve - \$2.0**

As part of the approved three-year labor agreement with the non-safety employees, an equity pool needs to be established to fund equity studies and resulting salary increases. A total of \$9.5 million is required in the three-year period. It is estimated that \$2.0 million of costs will be incurred in 2002-03.

### **Contingencies - \$4.7/Contributions to Reserves - \$1.4**

These funding recommendations are based on established county policy.

## **2% LOCAL COST REDUCTION**

The prior sections of this report addressed the financing available and the known new costs for 2002-03. This section addresses the proposed local cost reduction of 2% to locally funded departments, which would generate \$2.3 million in ongoing revenue sources to be used to fund future ongoing costs.

Due to County Policy, ongoing costs must be paid for by ongoing resources. Prior to this reduction there is only \$7.9 million of ongoing resources not allocated for future ongoing costs. There are currently two labor units that are in negotiations and one labor unit's agreement that will expire in the middle of 2002-03. All of these negotiations will require additional ongoing funding sources in 2002-03. In addition, there are other issues not addressed in the financing plan mentioned later in this document that could require the use of ongoing sources of revenue.

The 2% local cost reduction would increase the ongoing resources to \$10.2 million that can be used for future ongoing costs.



## **COUNTY POLICY**

In 1998 the county adopted a formal budget financing policy and a reserve policy. The key elements of these policies are described below:

### **Budget Finance Policy**

- One-time funds will not be used to finance ongoing operational costs, except within the context of a larger plan to balance ongoing revenues and costs over a multi-year period.
- No less than one-third will be allocated to increasing reserves to the 10% target level as defined in the County's Reserve Policy.

### **Reserve Policy**

- The county shall establish an ongoing general-purpose reserve for the general fund targeted at 10% of locally funded appropriations, with a target date of 2002-03 for attaining this goal.
- The county will maintain an appropriated contingency fund to accommodate unanticipated operational changes, legislative impacts or other economic events affecting the county's operations which could not have been reasonable anticipated at the time the budget was prepared. Funding shall be targeted at no less than 1.5% of locally funded appropriations.

The definition of locally funded appropriations is defined as those which are funded by discretionary, unrestricted property tax, sales tax, motor vehicle-in-lieu taxes, interest income, and other revenues not linked to specific programs.

For 2002-03 the locally funded appropriations are projected to be \$316.2 million. A general reserve requirement of 10% would be \$31.6 million and an appropriated contingency of 1.5% would require \$4.7 million.

The financing plan includes \$4.7 million in the county contingency budget and recommends a contribution of \$1.4 million to reserves to satisfy the requirements of these policies.

The county has several types of reserves. Some are for specific purposes, such as to meet future known obligations or to build a reserve for capital projects. The general reserves are funds held to protect the county from unforeseen increases in expenditure or reductions in revenues, or other extraordinary events, which would harm the fiscal health of the county.



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A listing of those reserves and the planned contributions are shown below:

<b>COUNTY RESERVES</b>			
	<b>June 30 2002 Balance</b>	<b>Recommended New Contribution</b>	<b>June 30 2003 Balance</b>
<b>General Purpose Reserves</b>			
Subsequent Years Expenditures	9,300,000	1,398,916	10,698,916
Economic Uncertainty	13,627,528		13,627,528
Lease/Lease Back	7,300,000		7,300,000
<b>Total General Purpose Reserves</b>	<b>30,227,528</b>		<b>31,626,444</b>
<b>Specific Purpose Reserves</b>			
Medical Center Debt Service	31,992,306		31,992,306
West Valley Maximum Security	1,492,986		1,492,986
Reserve For Future Retirement			
Rate Increases	1,500,000		1,500,000
Justice Facilities Reserve	5,205,408		5,205,408
Equity Pool Reserve	0	2,000,000	2,000,000
<b>Total Specific Purpose</b>	<b>40,190,700</b>		<b>42,190,700</b>
<b>Total Reserves</b>	<b>70,418,228</b>	<b>3,398,916</b>	<b>73,817,144</b>

As demonstrated above, the new contribution of \$1.4 million would bring the total general-purpose reserves to \$31.6 million.

The total specific purpose reserves are increased to \$42.2 million with the general fund contribution of \$2.0 million for an equity pool reserve.

It should be noted that the financing plan before the Board today does not include any use of these specific purpose reserves as a means of financing for 2002-03. As such, these funds remain available for multi-year planning and to address future costs such as those associated with juvenile facilities.

#### **ISSUES NOT ADDRESSED IN THE FINANCING PLAN**

In developing the financing plan, 61% of the new financing available for 2002-03 has been allocated to fund recommended adjustments (such as MOU increases, rate adjustments and items with prior Board approval) to the Baseline Budget. The remaining 31% of new financing available, in addition to the \$2.3 million from local cost reduction, is available to address many policy and program needs that are not identified nor funded in the financing plan, including:

- Salary Negotiations
- State & Federal Budget Changes
- Pending Litigation
- Retirement Issues
- New Judgeships
- Employee Health Care Costs
- West Valley Juvenile Expansion – Staffing and Utilities

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Also not included in the plan at this time are the following potential financing sources:

- Use of Specific Reserves
- Insurance Restructuring

The CAO's office will work with departments to further define these programs and related costs for the Board's consideration during the budget workshops. In addition to the above, many other departmental needs remain that have historically been treated as policy items during budget hearings.

**CONCLUSION**

This report has identified \$58.0 million in new financing available and recommends \$35.5 million in base line budget adjustments for the purpose of issuing budget targets to county departments. The financing plan has a total of \$24.8 million available for further Board consideration, which includes a 2% local cost reduction that generated \$2.3 million in ongoing resources.

<b>SUMMARY OF FINANCING PLAN</b>			
	<b>Ongoing</b>	<b>One-time</b>	<b>Total</b>
Financing available	32.3	25.7	58.0
Base line adjustments	(24.4)	(11.1)	(35.5)
2% Local Cost Reduction	<u>2.3</u>		<u>2.3</u>
Balance Available	10.2	14.6	24.8

This report also outlined some of the outstanding issues anticipated to be discussed in more detail in the May budget workshops and in budget hearings in June.

The County Administrative Office will continue to monitor the state and federal budget process for fiscal impacts as well as continue to refine our own estimates of fund balance and revenues available for next fiscal year. This office will also incorporate into the plan any mid-year actions, which may take place during the remainder of this fiscal year.

**SUPERVISORIAL DISTRICT(S):** All

**PRESENTER:** Valerie Clay, Deputy Administrative Officer (387-5410)